



Legislative Bulletin.....December 19, 2005

Contents: H.R. 4241 – Deficit Reduction Act – Title II

Title II: Education and Pension Provisions

Savings to Taxpayers: Title II would result in gross \$22.4 billion in savings, and net savings of \$16.3 billion over five years, including \$3.6 billion in savings from PBGC.

Summary:

The following are additional provisions and changes contained within the Conference Report:

- Allows graduate students access to PLUS loans (which allow loans up to the cost of attendance);
- Repeals the “single-holder” rule, which requires that students who have all of their loans with a single lender to consolidate with that lender (rather than having a choice of lenders);
- Modifies loan consolidation rules and eliminates counter-productive provisions to encourage loan rehabilitation, rather than allowing loan consolidation out of default;
- Prohibits new schools from entering the “school-as-lender” program, which allows schools to also act as the lending institution to those students in attendance, thus creating a potential conflict of interest scenario where the school would benefit with an increase in loan interest rates; implements additional restrictions on schools already in the program to ensure program integrity;
- Implements an IRS data match system to verify financial aid information of students to eliminate waste and fraud;
- Clarifies federal law regarding the prohibition of convicted felons from receiving federal grant, work, or loan assistance to state the law applies to students who are currently enrolled, receiving federal Title IV aid, and convicted of the offense;
- Increases grant aid for math and science students, specifically for low-income, high achieving first and second year students pursuing degrees in math, science, and certain high-need foreign languages;
- Increases the income cap students may earn without losing student loan eligibility;
- Makes various financial aid calculation changes, removing or lessening provisions that negatively affect how 529 savings plans are pre-paid tuition plans are treated, along with other changes that affect families with small business and unique state tuition plans;
- Creates a new College Access Initiative to coordinate all statewide college access information through the loan guarantors in the student loan program;

- Increases loan relief for certain high-demand teachers (math, science, and special education teachers) from \$5,000 to \$17,500; also makes loan relief provisions permanent;
- Allows active duty personnel enrolled in higher education courses to be treated as independent students (which increases financial aid access and qualifications);
- Removed the House passed provisions regarding increased lender fees; and
- Removed the House passed provisions regarding reductions in collection agency payments.

Note: To read the specifics of the provisions that were stripped from the House passed version of H.R. 4241 (as noted above), please see:

<http://www.house.gov/pence/rsc/doc/Ed%20and%20Workforce%20Reconciliation%20-%20revised%20final.doc>

Higher Education

Part 1 – Amendments to the Higher Education Act of 1965

- **50/50 Rule:** Modifies the 50/50 rule pertaining to the definition of an institution of higher education by excluding courses offered via telecommunications services from being considered as correspondence courses. As a result, telecommunications courses would not contribute toward the 50 percent limit on correspondence classes to be considered an institution of higher learning.
- **Loan Fees:** Strikes the authorization for lenders to be assessed and to pay an “administrative cost allowance” and inserts a “loan processing and issuance fee” instead; (up to 0.4 percent of the balance of loan that were insured each year).
- **Family Education Loan Program:** Reauthorizes the federal family education loan program (FFELP) through 2016; reauthorizes the federal loan insurance program through 2008; reauthorizes interest subsidized loans through 2012; reauthorizes federal consolidation loans through 2012.
- **Increased Loan Limits:** Increases the federal loan limits from \$2,625 to \$3,500 for first year students and from \$3,500 to \$4,500 for students who have completed their first year, the net effect being increased access and options to higher education for students. Aggregate undergraduate borrowing limits will remain unchanged at \$23,000, and graduate unsubsidized annual borrowing limits will increase from \$10,000 to \$12,000;
- **Consolidation Loan Limits:** Requires, after July 1, 2007, federal consolidation loans to be counted against the applicable limits on the total indebtedness of the student – one of the determinates in qualifying for student loans.
- **Loan Interest Rates:** Eliminates a scheduled switch (on July 1, 2006) from the current variable-rate formula (also known as an adjustable rate - an interest rate that fluctuates based on an underlying index, in this case the 91-day Treasury bill plus 2.3%) to a fixed rate (6.8% for students and 7.9% for parents) for certain federal student loans. Thus, current variable-rate formulas would continue to be in effect at such date, the net effect of which would increase federal income from incoming loan payments. Using the current variable rate formula, a student’s interest rate would be approximately 4.7% today.
- **Consolidated Loan Interest Rates:** Allows, after July 1, 2006, students with consolidated loans to choose between a variable rate formula (91-day Treasury bill rate plus 2.3% for students or plus 3.1% for parents) and a fixed rate (set at the 91-day Treasury bill rate plus 3.3% for students or plus 4.1% for parents).

- **Interest Rate Caps:** Extends interest rate caps – one for student loans at 8.25% and one for parent loans at 9%.
- **Loan Origination Fee:** Imposes a one-time consolidation loan offset fee of 1% on the principal amount on consolidated student loans. Also phases down the current 4% fee on Stafford loans to 1% over five years. Thus, borrowers in both FFELP and FDLP will pay 1% on Stafford loans by FY2010.
- **Loan Deferment for Military:** Adds a new provision under which military or National Guard personnel who are serving on active duty during a war or other military operation or national emergency may defer their loan payments for up to three years.
- **Loan Forgiveness for Service in Areas of National Need:** Provides for loan forgiveness for service in areas of national need and stipulates specific areas of service, including early childhood educators, nurses, foreign language specialists, librarians, certain teachers, and others.
- **9.5 Percent Loans:** Modifies the formula for certain loans funded with financing based on tax-exempt bonds (commonly known as “9.5 Percent” loans) by permanently extending the current policy (due to expire December 31, 2005, when they would revert back to a pre-October 2004 structure which is more costly for the government) and expanding its scope to include all new loans supported with similar financing.
- **Default Loan Rate Insurance:** Reduces the percentage that most lenders are reimbursed for defaulted loans from 98 to 96 percent and tightens eligibility requirements for lenders to qualify as “exceptional” to receive 98 percent reimbursement (instead of the previous 100 percent reimbursement rate for exceptional qualifiers).
- **Discretionary Administrative Expenses:** Eliminates mandatory funding requirement for administrative expenses beginning in 2007, but retains mandatory funding for account maintenance fees. CBO states “Section 458 of the Higher Education Act of 1965 specifies a direct appropriation for the government’s administrative costs associated with operating the financial assistance programs for post-secondary education students. The statute does not limit the amount provided for those activities after 2002; thus, this account is an uncapped direct spending account.” While some may question whether actual dollar-for-dollar savings will be realized through the appropriations process, this reform is an attempt to address an open-ended administrative entitlement and provide for more annual oversight.
- **Loan Forgiveness for 9/11 Victims:** Provides student loan forgiveness for survivors of victims of the September 11, 2001, attacks, including spouses or parents who are paying loans belonging to or on behalf of a 9/11 victim.

Part 2 – Higher Education Relief (for Hurricanes’ Katrina & Rita)

- **Gulf Coast Loan Forgiveness and Loan Deferment:** It appears these two provision has been removed from the Conference Report.

Subtitle C: Pensions

- **PBGC Premiums:** Increases the per-participant flat-rate premiums that the Pension Benefit Guaranty Corporation (PBGC) charges to sponsors of defined benefit pension plans from \$19 to \$30. Under current law, sponsors of single-employer, defined-benefit pension plans insured by the PBGC are required to pay the agency a premium of \$19 per participant per year. Under this legislation, the premium increases to \$30 per participant

in 2006, and it is indexed to wage growth in 2007 and thereafter. The legislation also grants the PBGC the authority to further increase these premiums by up to 20 percent each year if it determines that such an increase would be necessary to achieve an “actuarially sound” program (PBGC has incurred substantial losses in recent years, according to CBO). The last time the PBGC flat-rate premium was increased was 1991, from \$16 to its current rate of \$19. As of September 30, 2004, the single-employer program accounted for virtually all of the PBGC’s deficit. While PBGC’s assets grew by 79% from 2001 to 2004 (\$39 billion), its liabilities grew far larger 345% (\$62.3 billion), for a net position of -\$23.3 billion. CBO has estimated that without significant reform, PBGC’s single-employer program will run out of cash in 2020 or 2021. Increases the premium paid to the PBGC by managers of multi-employer pension plans from \$2.60 to \$8 per participant beginning in 2006 (added in Conference Report);

- **PBGC Termination Fee:** Implements a termination premium for single-employer plans that the PBGC takes over on an involuntary or “distressed-termination” basis. The required payments would be \$1,250 per plan participant for the three years following the termination. To view a recent CRS report on the financial health of the PBGC, click [here](#).

RSC Staff Contact: Derek Baker; derek.baker@mail.house.gov; 202-226-8585
